# Tentative stability after sell off

Trading in FX and bond markets suggests there is no indiscriminate panic across the board, despite the sharp retreat in stocks

falling stocks

## USD: Some tentative stability ahead

The FX markets got hit yesterday (even the low beta Czech koruna fell meaningfully) following another meaningful retreat in equity markets. Yet, the risk-sensitive FX segment stabilised overnight (ie, Turkish lira and South African rand are up against the USD overnight). The relatively limited reaction in core yields yesterday (unlike earlier in the week, UST yields did not fall sharply in line with the decline in S&P 500) still does not point to an indiscriminate panic across the board, but rather a natural correction after the multi-month gains in stock markets and healthy gains in emerging market FX. The fundamental outlook for the global economy remains largely unchanged.

As for today, we expect the risk-sensitive currencies to pause for breath. In Canada, the market expects a softer January jobs report after the stellar December figures. Should jobs surprise on the upside, as the US data has, this could provide some support to the Candian dollar in the current challenging environment for commodity currencies.

## EUR: Large miss in the underlying CPI weighing on NOK

We expect EUR/USD to trade around 1.2250 today following the non-negligible adjustment in recent days. The Norwegian krone will likely remain under pressure with the large miss in underlying CPI weighing on the currency. Yet, EUR/NOK 9.800 resistance should hold.

## GBP: 'Brexit-contingent' hawkish signal defers GBP upside

The pound recorded material gains yesterday following hints from the Bank of England at earlier rate hikes (see MPC Review). As for the GBP outlook, as Viraj Patel notes ('Brexit-contingent'...) GBP gains in the near-term may be slightly more tempered than one would have typically expected from such forward guidance - as such guidance is contingent on the Brexit negotiations. While we continue to look for GBP/USD to move up to 1.45 as the UK economy regains some of its cyclical swagger, we do think that patience is required before markets take that bet - not least until there is greater clarity on a UK-EU transition deal (which is likely to materialise over the next four-six weeks ahead of the 22-23 March EU leaders).

## RUB: The CBR rate cut to have a muted impact on RUB

Our economists expect the central bank to cut the base rate by 25bp today. Inflation near 2%, non-booming GDP growth and a stable ruble (when looking through the recent externally driven weakness) serves as the formal rationale, emboldened by recent dovish CBR notes on "faster policy normalisation". As this is widely expected by the market, the impact on RUB should be shallow. Rather, the main driver of RUB today will be the general risk environment.